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**REPORT 3**  
*(1215/52/IM)*

## **F69 FUNDING REQUEST**

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### **1. Purpose of Report**

This report provides a review of the F69 project. The Sink F69 Trust seeks approval for a grant from the Council to repay the remaining underwritten funds owed by the Trust to the Council.

### **2. Recommendations**

It is recommended that the Committee:

- 1. Receive the information.*
- 2. Note that the Sink F69 trust has requested that the Council provide a grant to enable the remaining funds outstanding to the Council be repaid or forgiven.*
- 3. Note that an economic impact assessment has been undertaken and this has forecast a positive economic impact for the project. The report raised the issue that maximising the economic impact will require a coordinated approach to promotion.*
- 4. Note that officers have completed a Risk Assurance review of the project.*
- 5. Agree to provide a grant of up to \$168,981 (incl. GST), less any funds repaid by the Trust to the Council, to the Sink F69 Trust to allow it to repay the funds outstanding under the underwrite agreement and to terminate this agreement with the Council.*
- 6. Agree to the grant is subject to the SinkF69 Trust providing audited financial accounts for the year ending 31 March 2006.*
- 7. Note that under the Agreement, the Trust will provide the Council with a management plan for the wreck for the five years following sinking of the frigate.*

### **3. Executive Summary**

The Council agreed in April 2005 to provide an underwrite facility to the SinkF69 Trust to enable it to prepare and sink the Frigate F69 as a dive wreck attraction on the south coast of Wellington.

The facility allowed the Trust to draw funds up to a limit of \$600,000 with the obligation to repay these funds to the Council. On completion of the project, the value outstanding is approximately \$169,000 before any final settlement from the Trust. The Trust has requested that the Council provides a grant of this value to allow these funds to be effectively repaid.

The project has been successful in acquiring and sinking the frigate on time, with wide media attention during its preparation and particularly on sinking. In the first six months as a divewreck it has generated additional diving business on the south coast. This level of activity is in line with the positive economic impact report undertaken by McDermott Miller and with earlier reports on the forecast levels of diving activity for the project.

Financially the project generated income above its budgeted level, however the merchandising activities did not generate the forecast revenue and the preparation costs in the last month were higher than planned. These factors resulted in the cost overrun and the shortfall in repayment to the Council.

Officers recommend that the Council make a grant to the SinkF69 Charitable Trust at a maximum payment of \$168,981 as a final settlement of this project, and which will terminate the underwrite agreement between the Council and the Trust. This grant is subject to the Trust providing the Council with a copy of audited financial accounts for the year ending 31 March 2006.

The termination of the underwrite agreement will end the Council's financial involvement with the current project.

### **4. Background**

#### **The Project**

The SinkF69 Charitable Trust obtained the resource consents in 2002 to enable it to acquire and sink the F69 frigate off the Wellington south coast as a dive wreck attraction.

The Council provided funds under an underwrite agreement for the Trust to draw on to fund the project with a maximum limit of \$600,000. This agreement was signed in April 2005.

The frigate was acquired by the Trust, towed to Wellington, prepared for sinking and then sunk on 13 November 2005. There was considerable media exposure of the sinking and the interest in diving at the site has been reported as being high.

### **Why this report is needed**

This report is needed for the Committee to consider whether it should make a grant to enable the Trust to repay the outstanding value it owes to Council. This will allow the underwrite agreement to be terminated and the Council's involvement in this project will then be ended.

The Trust has limited ongoing ability to raise funds and the Council has limited ability to enforce continuing repayments from the Trust. The project was always in the position that it would essentially end fundraising once the frigate had been sunk.

## **5. Discussion**

### **5.1. Project Outcome**

The project was successfully completed on time by the Trust. There was considerable media exposure as a result of the frigate being moored alongside Te Papa during its preparation, and particularly during the sinking ceremony. National and international media covered the sinking as well as large onshore and offshore viewing audiences.

There were a number of cost overruns as a result of decisions to provide F69 merchandise which did not meet revenue expectations, and preparation costs where additional changes were required in the last month to meet the requirements for sinking.

The project cost outcome is as follows, which has resulted in this request for this grant.

<b>\$excl. GST</b>	<b>Actual</b>	<b>Budget</b>	<b>Variance</b>
Income	744,024	698,482	45,541
Expenditure	899,047	670,485	228,562
Surplus/Deficit	-155,024	27,997	183,020

The major reason for the over budget expenditure was primarily due to increased site establishment, salvage and preparation costs in the last period of the project to meet the sinking requirements within the timeframe for sinking.

### **5.2. The contribution by the Council**

In addition to this request for funds, the Council contributed to this project by;

- Providing grant funding to support consent processes.[approx. \$70,000]
- Providing the underwrite facility to the Trust.

- The Council events team being actively engaged in the project and in particular with the sinking ceremony. This included promotional costs paid by the Council [\$20,000].
- Acquiring two propellers from the frigate through the Public Arts Fund. These are to be installed as a sculpture at a suitable location. [\$35,000]
- Completing an economic impact assessment.

### **5.3. Economic Impact Assessment**

The Council commissioned McDermott Miller Ltd to undertake an economic impact assessment of the project. The report made the following assessment of the economic impact of the project on the Wellington city economy.

<b>\$million Net Present Value</b>	<b>Diver Numbers Domestic/International</b>	<b>Economic Impact 1st Year</b>	<b>Economic Impact Later Years</b>	<b>Total Economic Impact</b>
Annual Value Added				
Low Diver No's	3000/700	\$0.9m	\$0.5m	\$5.2m
Medium Diver No's	5000/2000	\$1.4m	\$1.0m	\$10.0m
High Projected Diver No's	9000/3000	\$2.2m	\$1.7m	\$16.7m

The low scenario assumed 3,000 divers from elsewhere in New Zealand and 700 international divers per annum diving on the wreck. The current dive numbers are reported by the Trust to be in line with the low scenario with indications that up to 2,000 divers have already accessed the frigate since its sinking.

The assessed economic impact over the next 25 years, under the conservative or low scenario, was a net present value of \$5.2 million. This economic impact and the associated cost to the Council represents a return to the city which compares well with the 20:1 benefit ratio expected of events funding.

The report noted that to maximise the value of the wreck and increase the economic outcome requires the Wellington tourism and dive operators to work together to promote the site as accessible dive attraction within the city.

### **5.4. Risk Assurance Comment**

The Risk Assurance unit has undertaken a review of the project to provide Council with a level of assurance before making the decision to provide a grant to the Trust.

Based on a review of the financial statements of the trust and discussions with Council staff and Trustees, Risk Assurance found that the F69 Sink Trust has applied the Council funding as intended. Some aspects of the Underwriting Agreement, such as detailed monthly reporting and the level of documentation accompanying payment requests were not strictly adhered to. However, the trust did honour the spirit of the agreement by actively seeking to maximise non Council revenue. Risk Assurance recommended that any further funding is contingent on a final set of audited accounts

being supplied to the Council by the Trust as the most recent set of accounts received from the Trust contained accruals and estimates.

### **5.5. Termination of the underwrite agreement**

The Underwrite Deed contains the following Clause 5.1.

*The term of this Deed shall commence on the Commencement Date and shall expire on written notice from the Council to the Trust that all advances to the Trust have been repaid or forgiven.*

The provision of a grant to repay the remaining \$168,691 will fulfil this clause and allow the Council to write and terminate the deed.

## **6. Conclusion**

Overall this has been a successful project with a reasonable outcome given the large number of unknown variables at commencement. There has been recent media attention due to the frigate breaking up earlier than might have been expected. However this is not pertinent to the termination of the project funding.

It is unlikely that the Trust will be in a position to make any significant contribution towards the remaining value outstanding and it does not have plans in place to raise these funds. Officers recommend terminating the Underwrite Agreement by making a grant and essentially forgiving the outstanding balance up to a maximum of \$168,981. Note that the Trust intends to repay any additional funds that it has on hand which may reduce the amount owed to the Council to less than \$168,981.

Contact Officer: *Geoff Lawson, Portfolio Manager Council Controlled Organisations*

## **Supporting Information**

### **1) Strategic Fit / Strategic Outcome**

*This project supports the Council's overall vision of Creative Wellington – Innovation Capital. The project fits with the tourism strategic goal: to make Wellington an even more distinctive, attractive, high quality tourism destination.*

### **2) LTCCP/Annual Plan reference and long term financial impact**

*Project C555 Sinking of HMNZS Wellington  
There is no long term financial impact, as the grant would allow repayment of the outstanding underwrite balance.*

### **3) Treaty of Waitangi considerations**

*N/A*

### **4) Decision-Making**

*This is not a significant decision.*

### **5) Consultation**

#### **a) General Consultation**

*Relevant interested parties have been consulted in the preparation of this report – primarily the F69 Trust.*

#### **b) Consultation with Maori**

*N/A*

### **6) Legal Implications**

*Council's legal advisors have been consulted during the course of this project. No legal issues have been raised at this stage.*

### **7) Consistency with existing policy**

*This is a one-off decision, as such does not have a policy basis.*